



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, March 22, 2013
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:33 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Tom Connelly
Professor Dennis Hoffman
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne

Absent: Mr. Mike Smarik, Vice-chair

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Professionalism

Mr. Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Professionalism: Michael Carr, the Tucson Team, Mike Hostetler, Julie Lockwood, Tracy Darmer, and Aaron Chandler. They were nominated by staff who feel they exemplify the following PRIDE qualities of professionalism:

- Displays a positive demeanor (friendly, responsive, courteous) even when confronted by adversity
- Has subject matter expertise
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability
- Has a proactive and responsive approach to internal and external customer needs
- Has critical thinking skills
- Has an honest, fair and non-judgmental mindset
- Is adaptable to change that benefits members, associates and stakeholders
- Adheres to the ASRS Code of Conduct

Mr. Guarino presented the PRIDE Award for Professionalism to the award winners, Aaron Chandler and Tracy Darmer.

3. Approval of the Minutes of the February 22, 2013 Public Meeting and Executive Session and March 11, 2013 Public Meeting and Executive Session of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the minutes of the February 22, 2013 Public Meeting and Executive Session and March 11, 2013 Public Meeting and Executive Session of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 1 excused, and 2 vacancies, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the 2013 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, noted Professor Dennis Hoffman, Mr. Kevin McCarthy, Mr. Tom Connelly have been confirmed as ASRS Board Trustees by the Senate. Ms. Sorensen said ASRS Board Trustee nominee Mr. Richard Jacobs will be heard this coming week by the Senate.

Ms. Sorensen addressed the Board regarding ASRS 2013 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen presented the bill tracker, summarizing ASRS 2013 legislative initiatives.

5. Presentation, Discussion and Appropriate Action Regarding the New Five-Year ASRS Strategic Plan

Mr. Matson introduced the topic. Mr. Anthony Guarino summarized the final modifications to the Strategic Plan, noting Trustees expressed desire during the last Board meeting to have the Board Chair present during a motion to approve the Strategic Plan. He highlighted the addition of the "Strategic priorities crosswalk to goals," which Trustees had requested. Trustees commented they liked how goals and objectives were linked.

Mr. Brian McNeil suggested changing goal 4, budget administration, item number 2, on page 23, to read, "Maintain a budget that is fiscally conservative, responsive to changes in service demand and flexible enough to address concerns such as inflation, changes in technology, opportunity for efficiencies, and similar matters."

Motion: Mr. Tom Connelly moved to approve the ASRS Five-Year Strategic Plan incorporating the suggested changes to page 23, goal number 4, budget administration, item number 2. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, and 1 excused, and 2 vacancies, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He said the Fund is approximately \$30 billion and the fiscal year to date rate of return is approximately 10.5%.

Mr. Matson gave an update on the current staff views regarding investments, saying the ASRS is generally underweight in U.S. Treasuries. The ASRS is bullish on private market debt and neutral on high yield securities. Moving forward, the ASRS is initiating discussions on possibly indexing more of the large cap allocation. The ASRS had previously extracted itself almost completely from securities lending, where it had the ability to do so, due to concerns about reinvestment into European debt. The agency is now carefully considering engaging in more opportunistic securities lending due to tax advantages European governments are willing to pay domestic investors.

Mr. Matson said the agency is in the final process of moving about \$400 million into four newly created exchange traded funds.

Mr. Matson noted on February 25, an unintentional temporary short sale of six securities occurred in the E4 portfolio. This resulted from inadvertently loading a stale program trade list for the portfolio, and subsequently executing it. Mr. Matson said the Investment Management Division (IMD) Equity staff noticed the error during their daily audit of the prior day's trades, and an immediate corrective purchase was executed. This resulted in a total net cost to the portfolio of \$389.33.

Mr. Matson said a strategic planning Board meeting is planned for the near future and he will speak individually to each Trustee to get their ideas on what they would like to discuss.

7. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations and Audit Committee Meetings

Mr. Jeff Tyne, Operations and Audit Committee (OAC) Chair, said the OAC met on March 14 and discussed strategic information technology initiatives. He noted risk assessment and re-disbursements are to be discussed at the upcoming OAC meeting on May 9, 2013.

8. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming External Affairs Committee Meetings

Mr. Kevin McCarthy, External Affairs Committee (EAC) Chair, said the EAC will discuss agency rulemaking regarding the Board's ability to establish a dollar amount for the lump sum threshold for pension payments. He noted the next EAC Meeting will be held on April 12, 2013.

9. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings

Mr. Tom Connelly, Chair, Investment Committee (IC), provided an update on the upcoming IC meeting, noting investment strategic planning will be discussed and Mr. Dave Underwood will present a staff initiative regarding investments. The next IC Meeting will be held on April 22, 2013.

10. Board Requests for Agenda Items

No requests were made.

11. Call to the Public

No members of the public requested to speak.

12. Presentation, Discussion and Appropriate Action with Respect to the 2012 Review of the Director of the ASRS

Motion: Mr. Brian McNeil moved to go into executive session. Mr. Tom Connelly seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

13. The next ASRS Board meeting is scheduled for Friday, April 26, 2013, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

14. Adjournment of the ASRS Board

Mr. Manos adjourned the Board meeting at 9:21 A.M. to go into executive session in the 14th floor Conference Room.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date